

Thinking about domiciling a fund in the UK?

Here are the advantages.

Deciding on where to domicile a fund isn't such a straightforward decision these days. The reputable offshore centres in the Channel Islands and leading onshore jurisdictions such as Luxembourg will likely feature among your considerations, but the domestic route - i.e. domiciling the fund in the location in which your business is primarily based - can also be an attractive option too.

Naturally, every jurisdiction has its own advantages, whether that be in relation to the tax, legal and regulatory environment, the strength of the local infrastructure or resource pool, or perhaps the perception and reputation it carries. What the fund manager must do is weigh up which of these "selling points" it considers most important.

For some UK-based fund managers, we're seeing a trend towards "onshoring", where there is a desire to base the fund and everything that's involved in running it in the UK. So, why is this the case? In our experience, it tends to be for one of three reasons - cost, convenience and perception.

Cost...

Many observers tend to be surprised by cost, because the assumption in the market has always been that the offshore path leads to greater efficiency due to the tax advantages. While this can often be the case, particularly for larger funds with incrementally greater fund level costs, it isn't the universal rule.

There is a cost that comes with "offshoring" a fund, particularly from a logistical standpoint and, depending on the circumstances, this may outweigh the tax benefits.

Convenience...

As far as convenience is concerned, going onshore can remove the need to hold certain meetings in particular jurisdictions and the associated logistical and

procedural issues, but that's just one advantage. The flexibility of fund legislation actually makes it easier to do business than people think.

The regulatory approach for a closed-end, professional fund which is not registered with the Alternative Investment Fund Manager Directive ("AIFMD") is relatively light touch, once a fund manager is approved by the Financial Conduct Authority. From how funds are launched and structured for tax reasons to control over their own compliance function, the fund manager largely has the freedom to shape their business operations how they see fit. The red tape is refreshingly minimal.

As for the impact of the AIFMD, there's no denying that it's added to the bureaucracy and cost of doing business for in scope fund managers (i.e. those having AuM of >€500m or >€100m for leveraged funds).

Contrary to popular belief, however, it doesn't just impact the onshore world. Third country fund distribution within the EU now generally requires partial compliance under AIFMD in order to access national private placement regimes and the compliance and reporting obligations placed on onshore sub-threshold managers are, in fact, less onerous than those placed on third country managers. As a result, everyone is effectively navigating the same regulatory issues to a greater or lesser extent; balancing the ability to freely manage and market cross border with the increased compliance burden that comes with this freedom.

Outside of regulation, the actual day-to-day operation of a fund is fairly straightforward in an onshore context. If a fund manager takes the decision to administer their funds internally, taking into account the cost of systems and professional staff, then they have more control as a result. Ultimately, this comes down to self-governance. Even with an outsourced model, it is likely the company secretarial work will remain with the fund manager, enabling them to make investment decisions quickly and efficiently.

Perception...

With the media interest in corporate tax affairs as strong as it's ever been, businesses are also increasingly mindful of how they are perceived. Even though today's offshore jurisdictions are more transparent than many of their major onshore counterparts, many fund managers still want a significant onshore element to the structure of their fund.

Enjoying the best of both worlds

None of this means offshore is off the table. On the contrary, to remain attractive to all investors, we're now seeing fund managers launch more multi-jurisdictional structures with co-investment opportunities through on and offshore entities - a compromise position which should suit all. For fund managers thinking about outsourcing, this means finding a service provider that can offer consistency through the same standard of approach to access the best of both worlds.